

**REPORT TO THE TWENTY-THIRD HAWAII STATE  
LEGISLATURE 2006**

**IN ACCORDANCE WITH THE PROVISIONS OF ACT 4  
SPECIAL SESSION , RELATING TO MEDICAID MANAGED  
CARE PLANS, SESSION LAWS HAWAII 2005**

**DEPARTMENT OF HUMAN SERVICES  
MED-QUEST DIVISION  
DECEMBER 2005**

**REPORT TO THE TWENTY-THIRD HAWAII STATE LEGISLATURE ON  
ACT 4, SPECIAL SESSION, RELATING TO MEDICAID, SESSION LAWS  
HAWAII 2005**

Act 4, 2005 Special Session prohibits the Department of Human Services (DHS) from removing pharmaceutical benefits management from QUEST managed care plans and requires DHS to submit a report to the Legislature on the impact of carving out pharmaceutical benefits management from QUEST managed care plans. The report is to include: 1) an analysis of the cost elements of pharmaceutical benefits management by the DHS versus pharmaceutical benefits management under the QUEST-managed care plans, including generic utilization, and using available rebate information and reasonable estimates to calculate net pharmacy costs and comparative cost savings; (2) a comparison of the quality and efficacy of the different classes of drugs on the DHS' preferred drug list (PDL) and those of the QUEST-managed care plans; and (3) comparisons of the effects on management of care, patient care, including access and quality, and the impact on physicians, pharmacists, and other health care providers. The report is not to include the population that will be receiving pharmacy benefits from Medicare Part D starting January 1, 2006.

The comparative analyses for this report require accurate and valid encounter data. To date, DHS has not been able to obtain accurate and verifiable encounter data from the QUEST managed care plans in order to do a useful comparative analysis. The DHS will soon be requesting the managed care plans for more recent encounter data so the data can be analyzed and projections determined. Please note that, contractually, First Health Services Corporation, the Department's Pharmacy Benefits Manager (PBM) for the preferred drug list (PDL) in our Medicaid Fee-For-Service program (FFS), will be assisting the Department with the analysis. There are currently no penalties or incentives for the QUEST plans to provide complete encounter data, nor are there provisions that ensure that the data from the QUEST plans can be easily transferred or translated to the current PBM in a format for which analysis can be done. Only a full-scale audit by DHS would allow for complete assurance in the validity of the data.

The encounter data obtained earlier this year was not sufficient to make plausible projections or comparisons. First, we received data from only two of the three QUEST managed care plans: Aloha Care and HMSA QUEST. We did not receive data from Kaiser, which accounts for approximately 20% of the managed care population. Secondly, from an analysis of the encounter data that we received, we found that the data is irreconcilable with what we know is actually happening.

Specifically, when conducting the analysis of the utilization data received from Aloha Care and HMSA, our PBM noted that there are inexplicable discrepancies in the utilization data between these two plans. The discrepancies in the utilization data raise serious concerns over the completeness and accuracy of the data. Some examples of the discrepancies are:

1) Ace Inhibitors – HMSA data showed 2,879 claims, while Aloha Care data showed 5,757 claims. These figures raised a flag during the review process, since HMSA has nearly double the enrollment of Aloha Care, but reports only half the claims volume.

2) Proton Pump Inhibitors – In this class of drugs, both plans have almost identical numbers of persons using this drug, despite their significant difference in enrollment. It was also noted that the total number of distinct recipients on Proton Pump Inhibitors was found to be only 1,013 out of a total combined population (HMSA and Aloha Care) of approximately 124,000. This figure alone, 0.8% utilization of the class of Proton Pump Inhibitors, was enough to raise concerns over the validity of the data received.

3) Second Generation Antihistamines – The ratio of claims to recipients for HMSA is very high compared to Aloha Care and disproportionate to the ratio of recipients

The differences in the drug encounter data that we have received raises serious questions over the validity of the claims data received from the plans.

By contrast to the unreliability of the pharmacy claims data from the plans, the DHS has accurate data on the supplemental rebates and other savings that the State has received as the result of joining the new national multi-state drug purchasing pool called the National Medicaid Pooling Initiative (NMPI) in 2004. The State's membership in the NMPI increases our negotiating strength with the drug manufacturers to get better supplemental drug rebates for our Medicaid programs. The supplemental rebates are negotiated by First Health Services Corporation which administers the NMPI. For the 4<sup>th</sup> quarter of fiscal year 2004 through the 3<sup>rd</sup> quarter of fiscal year 2005, the State has realized a net savings of \$3,000,199 from supplemental rebates for approximately 40,000 Medicaid Fee-For-Service (FFS) clients through supplemental rebates collected. These rebate savings go into the State's general fund. Additionally, the State has realized other savings from participating in the NMPI (e.g., higher utilization of generic and lower priced comparable drugs).

Participation in this pool requires the direct purchasing of drugs through our Medicaid Fee-For-Service (FFS) program. The QUEST managed care plans cannot participate in the NMPI, though we continue to urge the federal Centers for Medicare and Medicaid Services (CMS) to permit the plans to participate.

Act 4 prohibits DHS from removing pharmaceutical benefits management from QUEST managed care plans. This prohibition is tantamount to prohibiting the DHS from expanding its participation in the NMPI which will cost the State, especially beginning January 1, 2006. Starting January 1, 2006, the implementation of Medicare D will result in the loss of at least 27,000 dual-eligible Medicare/Medicaid recipients, out of a total of 40,000 recipients, from prescription drug coverage in the State's Medicaid Fee-For-Service program. This means the supplemental drug rebates being generated by the NMPI will be drastically reduced.

There are currently 140,000 individuals enrolled in the Medicaid QUEST programs. However, Act 4 prohibited the DHS from removing pharmaceutical benefits management from the Medicaid QUEST managed care plans so the State cannot benefit from the supplemental rebates that could be negotiated through the NMPI for the 140,000 QUEST enrollees.

In addition to the \$3,000,199 in rebates, the State has also realized savings of \$2,685,788 from participating in the NMPI through development and implementation of a preferred drug list (PDL) for the Medicaid FFS program. The DHS has established this PDL with the Department of Health for the Medicaid FFS program. For each class of medications included on our PDL, the Department has established override criteria to ensure that patients with a genuine need for non-preferred medications can easily receive these needed medications. Together with the Department of Health, a Pharmacy and Therapeutics Committee, comprised of well-respected members of the Hawaii physician and pharmacist communities, was established to develop the PDL for the Medicaid FFS program. This Committee reviewed comprehensive, evidence-based research appropriate to evaluate each class of medications that we were considering for our PDL. Each of these Committee meetings were open to the public and included extensive public oral and written testimony. The Committee made recommendations to the Department based on the clinical merits of medications, not financial considerations. The drugs included on the PDL are less costly or offer higher rebates and are just as effective and safe as drugs not on the PDL.

In March of 2005, the Department reported that it had currently established a PDL for approximately 39 out of a total of 100 classes of drugs in the Medicaid FFS program. Specifically, there are currently 363 medications, out of over 11,000, listed on our PDL. Of these drugs, 46.6% (169 drugs) are considered "preferred" (unrestricted access) on our PDL. This is by far the highest number of "preferred" medications in the comparison between our PDL and the QUEST plans' drug formularies. See the chart below. This means that our Medicaid customers have greater ease and access to the drugs that they need through our PDL as compared to the QUEST plans' drug formularies which are more restrictive than our PDL.

		DHS Fee- For-Service PDL	HMSA	Aloha Care	Kaiser
Total number of drugs reviewed = 363 drugs, i.e., all the drugs on the DHS PDL	Preferred (unrestricted access)	<b>169/363</b> 46.6%	<b>146/363</b> 40.2%	<b>138/363</b> 38.0%	<b>94/363</b> 25.9%
	Non-preferred (restricted access)	<b>194/363</b> 53.4%	<b>217/363</b> 59.7%	<b>224/363</b> 61.7%	<b>269/363</b> 74.1%

Other benefits of a single, uniform statewide Medicaid PDL for both the FFS and QUEST programs includes simplification of the prescription process for the physicians because there is no prior authorization required for drugs on the PDL. Also, the

physicians would no longer have to comply with four different drug formularies to serve our Medicaid clients as the physicians must do now with the QUEST plans' three different drug formularies and our different PDL for the FFS program. Instead, permitting the DHS to purchase all drugs on a Fee-For-Service basis for all our Medicaid clients will simplify the physician's job with a single PDL, instead of four, and will provide greater access to drugs for our Medicaid clients. A single PDL in all our Medicaid programs would also be easier for the pharmacies filling the prescriptions.

The State spent a total of \$117,405,125 in FY 2005 for prescription drugs for our Medicaid FFS program. With the supplemental rebates received from participation in the NMPI and the savings realized from establishing the PDL, the total savings to the State was \$5,685,987 for FY 2005 for prescription drugs for clients covered in the Medicaid FFS program.

The DHS will continue to work on obtaining the information required to do a meaningful comparative analysis and will provide more information during the upcoming legislative session. To determine the actual dollar impact, the Med-QUEST Division will be utilizing Health Services Advisory Group, our current encounter data validation contractor, to do an in-depth review of all of the QUEST health plans pharmacy encounter data. We anticipate that this review will be completed in early Spring, 2006.